



## COUNCILMEMBER CARL DeMaio

FIFTH DISTRICT  
CITY OF SAN DIEGO

### MEMORANDUM

DATE: August 26, 2010

TO: Council President Ben Hueso  
Council President Pro Tem Kevin Faulconer, Audit Committee Chair  
Councilmember Donna Frye, NR&C Chair  
Alex Ruiz, Interim Director, Public Utilities

FROM: Councilmember Carl DeMaio *Carl DeMaio*

RE: Appropriate Review of Bid to Goal Agreement

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As you may know, reforming the Public Utilities Department (PUD) Bid to Goal (B2G) program has long been one of my priorities. At a time when San Diego working families and business are struggling in an economic downturn and water rates continually increase, the B2G paid out \$28 million in unsubstantiated bonuses since 2006.

At my request, the City Auditor conducted a performance audit of the program, revealing significant flaws with the process by which employees were awarded bonuses. Following this audit, the Audit Committee invested a significant amount of time over the course of numerous meetings with the goal of reforming the program. This included a significant level of involvement in pursuing a third party review of the legitimacy of the goals and benchmarks.

It has come to my attention that the Rules Committee is slated to consider a presentation from the PUD on September 8, 2010.

The PUD is requesting that the Rules Committee<sup>1</sup>:

- 1) "Approve the new Public Contract Operations Agreement (MOU) for Water Fund Employees for FY 2010 – FY 2014," and
- 2) "Approve the Amended Public Contract Operations Agreement (MOU) for Wastewater Fund Employees" effective FY 2010.

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<sup>1</sup> See August 9, 2010 Independent Rates Oversight Committee (IROC) materials.

These contracts cover the proposed FY 2010 – FY 2014 Water Fund Bid to Goal (B2G) Program as well as the FY 2010 Wastewater Fund B2G Amendment.

The PUD presentation mentions that improvements have been made to the Gain sharing Goals following the devastating audit of the Bid to Goal program issued by the City Auditor in February of 2010.

As the PUD has noted, “[a]t the Audit Committee meetings of March 22, 2010, April 12, 2010 and May 10, 2010, the Committee made multiple recommendations to improve the overall accountability and performance of the B2G Program. One of the recommendations was to engage a firm to provide a Third Party Review of the FY 2011 B2G goals to evaluate and comment on the reasonableness of goals based on industry benchmarks and standards.”<sup>2</sup>

The firm *Brown and Caldwell* has been retained to provide this third party review, but has not yet provided a report and is still completing their assessments of the program within their scope of analysis.

I am concerned that the PUD is proposing to move forward on MOUs pertaining to the B2G program – including the elements that fall under the purview of the *Brown and Caldwell* analysis – prior to the completion of this important third party review. The *Brown and Caldwell* scope of work indicated that they “have the capacity and personnel to complete [their work] within the short time frame (approximately one month) required by the City.”<sup>3</sup> Due to this estimated timeframe, I would anticipate the third party review to be complete in the near future.

Further, I do not believe the Rules Committee is the appropriate venue for moving these MOUs through the Council committee process, as the Audit Committee has invested a significant amount of time reviewing this program, and thus has a high level of familiarity with the subject matter.

Additionally, the B2G program has historically been dealt with by two Council committees: Natural Resources & Culture (NR&C) and Audit.<sup>4</sup>

**Requested Action:** I request that this item move through the Council Committee process through the Audit Committee and NR&C.

Further, I request that the Public Utilities Department provide written justification to the City Council as well as the Audit Committee for approving MOUs prior to the completion of the third party review by *Brown and Caldwell*.

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<sup>2</sup> Memo to the Audit Committee from Alex Ruiz. June 4, 2010.

<sup>3</sup> May 19, 2010 letter from Brown and Caldwell to City of San Diego Public Utilities Department

<sup>4</sup> For examples, see May 12, 2004 NR&C agenda, as well as Audit Committee agendas since February 2010.

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Given the documented risk to ratepayers posed by the B2G program, the City must take every step possible to ensure that the flawed bonus program is subjected to as much scrutiny as possible, particularly by the committees with the most extensive familiarity with the relevant issues.

cc: Mayor Jerry Sanders  
City Councilmembers  
Audit Committee Members  
Independent Budget Analyst  
IROC